

Optimism grows about U.S. drilling action increase in 2003

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U.S. drilling activity should increase in 2003, said a panel of energy industry executives in Houston Oct. 4.

The up cycle will be largely driven by natural gas, as well as the strengthening relationship between operating companies and contract drillers, said panelists at the 16th biannual Oilfield Breakfast Forum sponsored by Resource Marketing International and Randall Morton International Inc., both of Houston.

Despite recent run-ups in both oil and natural gas prices, U.S. drilling activity hasn't yet picked up primarily because cash flow among operators is still down 25% from last year, said James D. Crandell, managing director and senior oil service analyst at Lehman Bros. Inc. "That's the most important factor," he said.

Natural gas-driven recovery

However, Crandell sees a natural gas-- driven recovery in U.S. drilling operations starting next year. With sharper production decline curves on new discoveries in recent years, US gas production is expected to drop 5% this year and 3% in 2003, Crandell said. "We need 900-1,000 rigs drilling for gas just to maintain current domestic production levels," he explained.

"We must explore for the good of our country and the survival of our industry," said Jim Lightner, chairman, president, and CEO of independent exploration and production company Tom Brown Inc., Denver.

Lightner told industry representatives at the forum that the Rocky Mountains represent "the single largest untapped onshore natural gas basin in the U.S.." It holds 41% of the estimated proven and potential U.S. gas reserves, he said. Yet, Lightner complained, access of Rocky Mountain gas to US markets remains restricted because of lack of pipeline infrastructure. As a result, he said, Rockies gas still sells at a subsequent discount to other gas on the market. Market prices for Rockies gas are projected to improve as more pipeline capacity is added.

Meanwhile, Lightner called for improved technology to help identify the "sweet spots" of unconventional gas deposits in the Rockies and to improve drilling and completions.

Up-cycle forecast

Crandell also said he expects a "global up cycle" in 2003-05, with economic recovery starting next year and oil prices remaining above \$20/bbl. Lehman Bros. projects oil prices

to average \$24.25/ bbl next year, with US natural gas prices pegged at \$3.50/Mcf

As a result of that upturn, the stock prices of some oil service companies "could double in the next 2-3 years," Crandell predicted. He identified potential business growth areas in underbalanced drilling, expandable screens and tubulars, subsea completions, deep shelf drilling operations in the Gulf of Mexico, and drilling in the nations of the former Soviet Union.

Gas prices above \$3/Mcf would translate into "very good business" for drilling contractors and others in the industry, said C.R. Palmer, chairman, president, and CEO of Rowan Cos. Inc., Houston, an international drilling contractor with operations concentrated in the North Sea, Canada, and Gulf of Mexico. "If it goes to \$5/Mcf, that would be heaven. But if it goes to \$9/Mcf, we'll be in trouble again" as demand for gas would again decline in favor of conservation and cheaper fuels.

"True prosperity continues to elude the drilling industry," said Palmer. "We (Rowan) are currently profitable, but just barely." He said that "conflict" between oil field contractors and their clients continues "over value vs. price."

Operator-contractor relations

Raymond I. Wilcox, president of North American upstream operations at ChevronTexaco Corp., said his company-like virtually all of the major producers-is focusing on partnering arrangements with select lists of key contractors and suppliers. In the selection of contractors and suppliers at ChevronTexaco, he declared, "Operational emphasis on safety will be a gatekeeper."

When asked if ChevronTexaco is willing to pay extra to those contractors and suppliers who can document better performance records, Wilcox responded with a firm "yes."

Furthermore, he said, "It makes no sense to squeeze (contractors and suppliers) to where there's no profit left (for them), but we do want the most return for our money."

Palmer warned those in attendance that the "game" of upgrading existing rigs to generate more cash flow "is just about over." He said 20-year-old mobile offshore rigs, even when upgraded, cannot continue to compete with newbuild rigs coming into the market.

The number of competing jack up rigs will be reduced as retirements and other removals of existing rigs outpace new additions over the next 5-10 years, Palmer forecast.

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